

Message Text

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PAGE 01 SANTIA 01730 051908Z

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ACTION EB-07

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 7522

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E.O.11652:N/A

TAGS: ETDR, CI

SUBJ: DECREE LAW ON AUTOMOBILE INDUSTRY

1. SUMMARY: GOC RECENTLY INTRODUCED TWO MEASURES ONE BASED ON REGIONAL EMPLOYMENT NEEDS, THE OTHER ON BALANCE OF PAYMENTS CONSIDERATIONS, WHICH CHANGE FUNDAMENTALLY THE SYSTEM OF LIMITED ASSEMBLY OPERATIONS AND OPEN IMPORTS OF CARS WHICH WAS ESTABLISHED AT THE END OF 1975. END SUMMARY.

2. DECISIONS BY THE GOC IN LATE 1975 TO GRANT EXCLUSIVE ASSEMBLY RIGHTS TO THREE FOREIGN AUTOMOBILE MANUFACTURERS (GENERAL MOTORS, FIAT AND RENAULT/PEUGEOT) AS WELL AS TO ALLOW IMPORTS OF CARS AS FROM JANUARY 1, 1976, APPARENTLY HAVE COME UNSTUCK AS A RESULT OF TWO RECENT GOVERNMENT ACTIONS. QUESTIONS AS TO WHO WOULD MANUFACTURE OR ASSEMBLE AUTOMOBILES, AND UNDER WHAT CONDITIONS, HAVE BEEN BEFORE THE MILITARY REGIME SINCE IT ASSUMED POWER IN LATE 1973. WITH THE ANNOUNCEMENT (1) OF THE AWARD OF ASSEMBLY RIGHTS TO THE THREE BID WINNERS LAST NOVEMBER AND (2) THAT IMPORTS WERE TO BE ALLOWED AS FROM THE FIRST OF THE YEAR, THESE QUESTIONS WERE OSTENSIBLY RESOLVED. HOWEVER, OPPOSITION TO THESE ARRANGEMENTS WAS APPARENTLY STRONG ENOUGH TO OVERTURN

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PAGE 02 SANTIA 01730 051908Z

BOTH DECISIONS WIHTOUT MUCH DIFFICULTY.

3. AS A RESULT OF A WEEKEND VISIT TO ARICA FEBRUARY 20-22 PRESIDENT PINOCHET ANNOUNCED THAT THE STATE-OWNED AUTOMOTIVE ASSEMBLY PLANT, CORFO/CITROEN, WOULD TREBLE ITS PRODUCTION OF AUTOMOBILES DURING THE COURSE OF 1976. PRODUCTION IN 1975 AMOUNTED TO ONLY 700 VEHICLES. THE PRESS ANNOUNCED THAT A NEW DECREE LAW WAS IN PREPARATION TO GRANT RIGHTS TO CORFO/CITROEN SIMILAR TO THOSE GRANTED TO THE THREE BID WINNERS IN NOVEMBER.

4. RATIONALE BEHIND THE GOVERNMENT'S DECISION TO CONTINUE CITROEN PRODUCTION MAINLY BASED ON EMPLOYMENT CONSIDERATIONS IN ARICA. ANNOUNCEMENT SEEN BY EMBASSY AS BOLSTERING MORALE OF RESIDENTS OF REMOTE ARICA WHOSE TIES TO CHILE HAVE TRADITIONALLY BEEN WEAK AND WHOSE FUTURE IS A MATTER OF ANXIETY IN VIEW OF PROPOSED BORDER ADJUSTMENTS TO ACCOMMODATE BOLIVIAN CORRIDOR. THUS THE STRONG INTEREST SHOWN BY PINOCHET'S VISIT AND HIS ANNOUNCEMENT TO INCREASE AUTOMOBILE PRODUCTION IN ARICA ARE SEEN AS SOLID EVIDENCE OF SANTIAGO'S CONCERN FOR PEOPLE OF THE REGION.

5. PRACTICAL EFFECT OF INCREASED CITROEN PRODUCTION IN ECONOMIC TERMS IS NOT SIGNIFICANT. WORKERS AND EVEN PRODUCTION FACILITY MIGHT WELL BE ABSORBED BY GM WHEN THE LATTER REACHES AGREEMENT WITH THE GOC TO BEGIN PASSENGER CAR PRODUCTION. (MAJOR GM TRUCK PLANT IS ALREADY LOCATED IN ARICA). HOWEVER, THE EASE WITH WHICH THE GOC INSERTED CORFO/CITROEN ONTO ITS LIST OF AUTHORIZED AUTOMOTIVE ASSEMBLERS MAKES THE OTHER THREE NERVOUS. THEY RECOGNIZE THE "SPECIAL CIRCUMSTANCES" INVOLVED WITH CORFO/CITROEN IN ARICA, BUT THEY WONDER WHETHER OTHER "SPECIAL CIRCUMSTANCES" MAY ARISE TO BRING IN A FIFTH, SIXTH OR SEVENTH ASSEMBLER.

6, ANOTHER FUNDAMENTAL CHANGE IN THE RULES OF THE AUTOMOTIVE GAME WAS A LACONIC ANNOUNCEMENT IN THE OFFICIAL GAZETTE OF MARCH 2 THAT PASSENGER CAR IMPORTS AS OF MARCH 1 WOULD BE SUBJECT TO A 10,000 PERCENT PRIOR IMPORT DEPOSIT, THUS EFFECTIVELY CLOSING DOWN IMPORTS OF CARS WHICH HAD BEEN ALLOWED SINCE JANUARY 1, 1976 (ALTHOUGH NO ACTUAL IMPORT LICENSES HAD YET BEEN APPROVED.) ACCORDING TO THE CHILEAN AUTOMOTIVE COMMISSION, AN ENTITY WITHIN THE GOVERNMENT-OWNED CORPORACION DE FOMENTO (CORFO), THE SUSPENSION OF IMPORTS IS ONLY A "TRANSITORY MEASURE" WHICH IS DESIGNED TO PREVENT AN EXCESSIVE OUTFLOW OF FOREIGN EXCHANGE FOR PASSENGER CARS
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PAGE 03 SANTI 01730 051908Z

BEFORE THE REORGANIZED DOMESTIC INDUSTRY IS IN FULL PRODUCTION. HOWEVER, IF IMPORTS ARE SUSPENDED FOR AN EXTENDED PERIOD OF TIME, THE ELEMENT OF PRICE COMPETITION BY IMPORTS, BACKED BY MINISTERS CAUAS AND DE CASTRO, WILL BE COMPROMISED. AT THAT POINT THE DOMESTIC AUTOMOTIVE ASSEMBLERS FEAR THAT PRICE CONTROLS WILL BE IMPOSED BY THE GOVERNMENT.

7. THE OUTLOOK FOR AUTOMOTIVE PRODUCTION IN CHILE THUS IS CLOUDIER THAN EVER. EMBASSY EXPECTS NEGOTIATION ON INDIVIDUAL CONTRACTS BETWEEN GOC AND FIAT, RENAULT/PEUGEOT, AND ESPECIALLY GM WILL BE COMPLICATED AND PROTRACTED.

UNEMPLOYMENT AND BALANCE OF PAYMENTS DEFICIT ARE BOTH MORE
SENSITIVE THAN BEFORE, AND OTHER NON-COMMERCIAL CONSIDERATIONS
MAY BE EXPECTED TO INTRUDE BEFORE THE AUTOMOTIVE ASSEMBLY
QUESTION IS SETTLED.
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